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- Seeing pivots and momentum pauses in Level 2

● Main Points:

- In addition to charts, your Level 2 window can also be helpful in **identifying where the price trend is about to change**, either with new buyers coming in for a bottom bounce or selling at a top occurring, before the price drops.
- **Pivots**: occur when the sellers are finished and new buyers come in to buy a stock that looks oversold; or, conversely, when buyers are finished and everyone wants to take profits, where the stock looks overbought.
- **Momentum Pauses**: occurs right before a price trend pivot, where the buying and selling pressure is about equal. Uncertainty before the run (either up or down) is a good time to enter your trades, if you can read the tape correctly.
- Momentum Pause price action is sometimes seen in time & sales as **"in-between" trades** going off between the current bid and ask, for example if the inside looks like 41 1/4 x 41 3/8, you may see people splitting the bid at 41 5/16. This is one possible indicator of a pending change in direction of the price trend.
- One thing worth noting is that these plays are for bounces and tops that are **extreme**, eg usually characterized by a **change of at least +/- .5% for the stocks' price action**...when you have your portfolio tracker open these are the plays for the stocks at the ends of the spectrum, who have either gained or lost quite a bit on the day (eg shorting a top of a stock that's up +14%, or attempting to bottom-fish a stock that's down -7.2% etc). These pivot and momentum pause plays are **not for stocks that are in a trading range**, rather it's how to identify the "turning points" with a fair degree of accuracy on the extremes. As always, use small stops.

Level 2 Pivots and Momentum Pauses

Examples:

Buying bottoms and selling tops is almost impossible; however, you can use Level 2, Time & Sales, and risk/stop management to profit off of these corrections in stock prices. It takes practice and attention to your L2 windows.



Don't even try to nail the tops and bottoms exactly, the best I've done on average is 10-15% of the time for nailing it within 1/16th. The main thing is to take a piece of the action consistently, using small stops, eg if you buy what you think is the bottom, make sure to sell if back if you're wrong and the stock goes against you another 1/8th or more. DELL on Feb. 8th 2000(above right chart) is a good example; it kept selling off to around -6% before rebounding later in the day.

Let's look at how to use Level 2 to help identify where these pivots and momentum pauses occur.

Pivots: When you see one side (bid or ask) stacked heavily in one direction a pivot may be about to happen. Note that in this PAGE L2 box the inside (yellow) buyers are stronger than the inside sellers and the majority of the trades going off in T&S are at the ask, a bullish sign.

I would be careful with this one, however, since the 1st outside (green) band is much stronger with sellers.

Identifying the pivot: using t&s and the relative speed and price momentum of the trades is helpful, as is the mm movement within the bands. For example, you can see MLCO and MASH are buying here, but are making the market at 3 7/8 offered. Daytrader sentiment seems bullish, as we have 179 bid ISLD vs 10 ask. And, as I've mentioned numerous times, HRZG's large sizes are almost always fake, so ignore them.

PAGE	+	3 27/32	b	3 13/16	a	3 27/32	179 x 10	44.2M	14:22
MM...	Bid	B...	MM...	Ask	A...				
ISLD	3 13/16	179	ISLD	3 27/32	10			3 27/32	100
HRZG	3 13/16	117	BRUT	3 27/32	9			3 13/16	1.00K
MLCO	3 13/16	20	SBSH	3 27/32	9			3 27/32	500
ARCA	3 13/16	15	HRZG	3 7/8	193			3 27/32	800
MASH	3 13/16	10	MASH	3 7/8	50			3 27/32	1.50K
PRUS	3 13/16	10	STRD	3 7/8	50			3 27/32	900
BRUT	3 13/16	9	SHWD	3 7/8	43			3 13/16	400
SLKC	3 13/16	1	INCA	3 7/8	30			3 27/32	200
SHWD	3 25/32	1	MLCO	3 7/8	20			3 27/32	1.00K
MADF	3 3/4	23	MADF	3 7/8	17			3 27/32	1.00K
PWJC	3 3/4	10	REDI	3 7/8	15			3 27/32	1.50K
								3 27/32	1.50K

Daytrader's Play: Watching the price action in T&S as we've learned in earlier lessons, keep an eye on where, within the yellow and green bands, the major market makers are placing their bids and offers.

They are experienced traders and are always fading in and out of positions at different sizes. (eg MLCO may have been a buyer at 3 3/4 through 3 13/16, and wants to sell several hundred thousand shares from 3 13/16 up through 3 15/16, for a sizable profit. In terms of pivots and L2, watch for clues by seeing the width of the 1st outside (green) bands as a leading indicator, and watch to see if the major mm's are flipping from one side to the other.

You may be relatively safe joining the ISLD bidders here at 3 13/16, or even paying up 3 27/32; with a stock like this I'd sell it if we got down to 3-4 market makers at 3 13/16, though. Losing traders would hold the position down to 3 5/8 or something and hope for a turnaround. Get out fast in fast-moving high-volume stocks on pivots like this one.

Momentum Pauses: Again, these are where buying and selling pressure is about equal, right before the pivot occurs.

In this T&S box for DELL you can see that the inside bid and ask depth is about the same, with 7 players on each side. More importantly, you can see a number of "in-between" trades going off inside the spread, at 37 3/32, 37 5/65 etc. If this keeps up, you will slowly start to see the trend slip in one direction or the other.

If, for example, we see trades going off at the ask, 37 1/8, and the number of players on the inside ask start to drop you might want to jump on board and hit the ask before it rolls up to 37 1/8 x 3/16. Even better, just try bidding with the "in-between" bids at 37 3/32 to get a fill for any last-minute sellers.

Watch also in T&S for a relative slowdown in the pace of trades going off, and watch your 1-minute chart to see what's going on with the volume. Fading volume tends to precede a change after a big directional move (either up or down), as 'that crowd'/sentiment wears down, before the direction change occurs.

DELL	+	37 1/8	b	37 1/16	a	37 1/8	69 x 33	54.9M	14:22
M...	Bid	B...	M...	Ask	A...				
ISLD	37 1/16	69	ISLD	37 1/8	33			37 1/8	100
INCA	37 1/16	39	NITE	37 1/8	10			37 1/8	800
REDI	37 1/16	20	NFSC	37 1/8	10			37 1/8	100
COST	37 1/16	10	MADF	37 1/8	8			37 1/8	1.00K
SBSH	37 1/16	10	MWSE	37 1/8	1			37 1/16	100
FLTT	37 1/16	5	PRUS	37 1/8	1			37 5/64	900
RSSF	37 1/16	5	ATTN	37 1/8	1			37 1/16	1.00K
MASH	37	19	RSSF	37 3/16	10			37 1/8	200
ARCA	37	10	ARCA	37 3/16	10			37 1/8	100
MWSE	37	10	MASH	37 3/16	4			37 1/16	200
GSCO	37	10	INCA	37 1/4	20			37 1/8	300
SLKC	37	10	REDI	37 1/4	5			37 3/32	100
								37 1/8	1.80K

Daytrader's Play: Pivots are dangerous to play, as the trend is 'usually but not always' your friend; the stock may pivot for 1-2 spreads and then reverse back to continue it's original direction.

Keep especially tight stops when you're going against the trend waiting for a reversal, as these are tougher to play than other types of daytrades. When done well, you feel great, and they can be highly profitable. You may need to take several small stops "on the way down" before finding the real bottom; that's fine, just remember that your odds are better when you're playing pivots on extreme moves.

Of course the best pivots are to short huge gaps up on open and buy huge gaps down on the open (huge meaning over 11-15%); again they are dangerous though.